RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

Sept. 25, 1996 **LETTER 1209**

THE PICTURE: It had to happen. I didn't think the stock market would be "satisfied" without it. I'm talking about the new all-time high in the Dow, a high above the May 22 high of 5778.00. On September 13 it finally happened -- the Dow surged to a new record high. Mission accomplished! What next?

Were there any early hints of this latest surge in the Dow? Well, yes there were. The new record Dow highs were preceded (see page 2 chart) by weeks of a "surprisingly" strong **Primary Trend Index (PTI)**. Furthermore, the PTI rallied to new highs three days prior to the September 13 upside breakout in the Dow.

That was then, but what now? The PTI has now backed off its high, and the important consideration is to see whether the PTI continues to make new highs, or whether it begins to trend down.

What about the **Dow Theory?** From a Dow Theory standpoint, the situation is suspect. Although the D-J Industrial Average has risen to a new record high, the D-J Transportation Average remains *more than 200 points below* its record May high of **2296.20.** Thus a *major non-confirmation now exists.*

Translated, this means that the Transports must either (1) confirm by rising to new highs (above **2296.20**) -- or at least move up *in the same direction* as the Dow, or (2) refuse to confirm -- and even decline -- thus raising a yellow flag for the market.

As an interesting aside, I don't remember a time when a flagrant non-confirmation (such as the one we now have) was so totally ignored by both the press and the Wall Street fraternity. Significantly, on its most recent (September) rally, the Transportation Average was not even able to rally above its month-earlier August high of 2079.60.

Aside from the non-confirmation (and this is not part of Dow Theory), the Dow has assumed the form of a "broadening top." This is a five-point pattern, each high above the previous high and each low below the preceding low (see page 1 chart). The broadening top is characteristic of a market "out of control," a market swinging wildly, whipping "mindlessly" first one way and then the other. Broadening tops do not usually end happily, but maybe this one will prove to be an exception.

Values: Aside from the non-confirmation, there's another problem, and it has to do with values. The fact is that this market has been *overvalued* for over three years. In May 1996 valuations by one time-honored measurement rose to their most exorbitant level in history. Consider this -- in May it took $46 worth of the S&P 500 to buy $1 of S&P dividends. Never before had $1 in S&P dividends been this expensive.

Previously, any time the S&P sold for over even 33 times one dollar of dividends, that lofty ratio proved to be a danger level. In the past, once the peak of the price/dividend ratio was reached, the market headed down into a bear market.

Another interesting valuation measure is the value of ALL US stocks as a percentage of the overall US economy (i.e., the GDP). The Leuthhold Group notes that over the last 40 years this ratio of total stock market value-to-GDP averaged 58.3%. Whenever this indicator rose above 73.5% the market proved to be in trouble. Whenever the indicator slipped below 42.1%, the market proved to be a great buy. Currently the index is at an incredible 90% of GDP,

Sept. 13 DJIA 5838.52; PTI 4617; A-D Ratio +0.66
Sept. 20 DJIA 5888.46; PTI 4625; A-D Ratio +0.65
Dow Yield: 2.16%; Dow Price/Earnings: 18.2
Dow 144-day MA: 5643; Dow 34-day MA: 5732
Dow Times Book Value: 4.40; PTI 89-day MA: 4563
Percentage of Undervalued Blue-chips: 5%
Gold 200-day MA: 393.77; Gold-PTI: 377

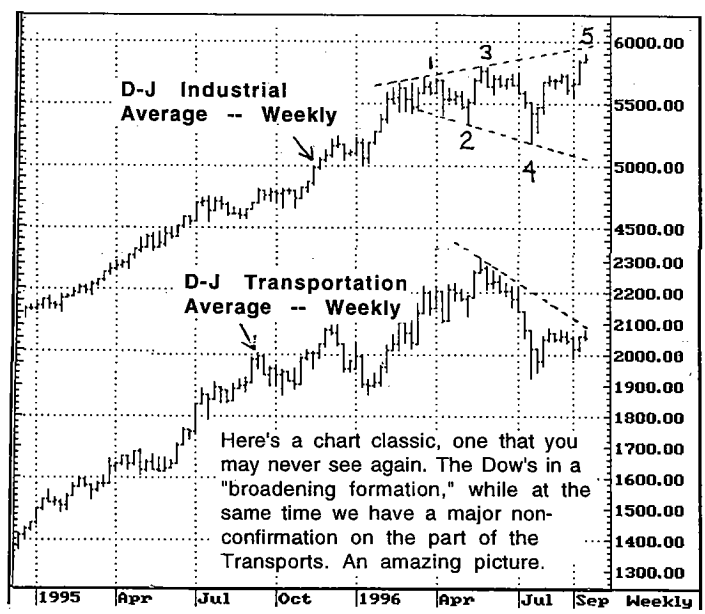
a level which has never been seen before. What does this mean? Again, it means that (by this measurement) stocks are the most overvalued they've ever been.

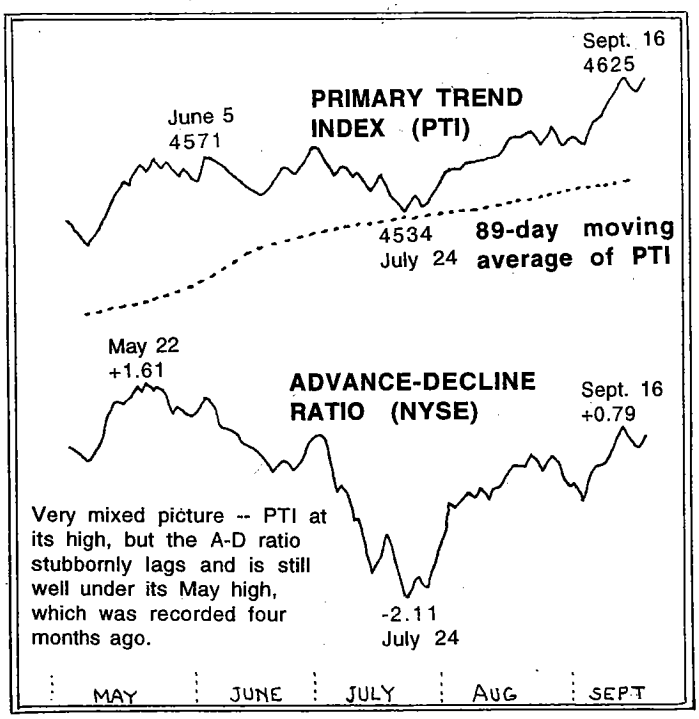
Primary Trend Index: Despite all the foregoing, my PTI continues to mill about just off its highs. Ah, but there's a secret -- you see, the PTI doesn't deal with sentiment or valuations or what the market "ought to be doing," the PTI deals with what the market is *actually doing.*

I'll remind you that the PTI is composed of eight items, and when the trend of the *majority* of these eight items is up, this is a sign of underlying strength. The strength isn't a Russell opinion or interpretation -- it's a fact. This is why the PTI has proved to be such a remarkable indicator ever since I first computed it back in 1971.

Economy: Despite the Fed's usual double-talk and obfuscation, the economy appears to be heating up. The price of everything from your rent to a glass of beer to a plane ticket to a gallon of gas is heading higher. By rights, the Fed should boost rates a full half-percent (and I hear the governors want to), but wait, there's a problem. The problem is that we're almost sure to be treated to four more years of Bill Clinton & Co. And I suspect that Fed Chairman Greenspan (knowing that he has to deal with four more years of "the Comeback Kid") would love to hold off any rate boost until AFTER the election.

Comments: Through a long series of declines and new highs, declines and new highs, the investing public has finally learned to be "fearless." After investing $5.8 billion in stock mutual funds in July, the lion-hearted public poured a massive $19 billion into equity mutual funds in August. In the public's mind it's patently clear -- "Every market decline represents a buying opportunity, and





every market high will be followed by another high and another and another."

Confusion: Yet, seasoned market veterans continue to be puzzled by this market. Why the puzzlement? Among other things it's because the market has been rising for "too long" without undergoing a full correction. It's because the market has been chronically overvalued for "too long." It's because dividend yields on the Dow and the S&P have sunk to minuscule levels never experienced before.

Demand: Personally, I must confess that I've never seen a market like this one. This market seems to be defying every law of Wall Street, every law of gravity, every law of stock market history. The fact is that this is a market that has been dominated by an extraordinary supply/demand situation. The supply of stocks has undoubtedly been growing, but the demand -- the demand has made the real difference.

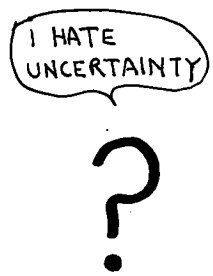
Many years ago George Schaefer, in his famed Dow Theory reports, stated that the "new Dow Theory" must make allowances for the arrival of a *mass entrance of the public.* Mass participation by the public, he predicted, would mean stock movements which would far overrun classic boundaries. It would mean that crowd enthusiasm would drive stocks far above what might be considered "normal" upside limits, and in turn crowd fear would drive stocks far below "normal" bear market limits (ah yes, remember 1987).

Was Schaefer ever right! But even in his wildest dreams I don't think Schaefer envisioned a Dow selling near a 2% yield. And I don't believe that Schaefer ever expected a bull market that would last for 22 years.

Ironically, George Schaefer died in 1974, the exact year when the current great primary bull market began. But to his credit, Schaefer saw what a difference the entrance of tens of millions of investors would make on the market. Schaefer probably envisioned volume of maybe 10 million shares a day, but I know he never dreamed of NYSE volume of over 400 million shares a day, volume generated as tens of millions of eager buyers poured into the stock market, buying stocks at the rate of almost $20 billion a month. Furthermore, Schaefer never envisioned the existence of 7,000 mutual funds. Nor could he have envisioned billions of dollars pouring into stocks monthly and automatically via 401(k) plans and pension funds.

History tells us that the stock market runs to extremes -- greed at one end of the cycle and fear at the other. Clearly, we are now deep in the era of greed. How far can this sentiment carry the market? Not much further, in my humble opinion.

INVESTMENT POSITION: I'm keeping the question mark in the box. This report has always been called Dow Theory Letters, and I'm not going to change that. So let's talk Dow Theory. With stock yields at historically LOW levels and with the Dow at new highs, UNCONFIRMED by the Transports, I feel the market is in highly uncertain (even dangerous) territory. Thus, the question mark and the uncertainty remain.



An investor called his friend, the CEO of a major steel company. "Charlie, how's business?" he asked. The steel executive answered, "It's unbelievably good -- in fact, I can't imagine it getting any better." The investor immediately called his broker and told him, "Sell all my steel stocks."

"What's the deal?" asked the broker. Said the customer, "I was just told by a top steel executive that the steel business is fabulous -- in fact, it can't get any better. If it can't get any better, it can only get worse. So SELL." **Russell comment:** This is a true story; it happened in 1960, and I was the customer.

DOLLARS, VALUES, RAMBLINGS: Jim Rogers in the current issue of *Worth* magazine (October) discusses a problem I've been writing about for years. It's the US's massive and continuing borrowing from abroad. The numbers are mind-blowing, but it's this ability to borrow that has kept US prosperity going. The fact is that instead of saving, the US has been spending massively -- and borrowing, borrowing. All the while foreigners have been paying a large chunk of the bill.

Rogers notes that our economy has been growing *"at about 2% annually over the past five years. Our loans from foreign investors, unfortunately, have risen still higher, increasing at an average rate of 14% during the same period."* Rogers adds that rather than using all this borrowed money for constructive investments,*"instead we've spent the cash on things like armaments, social services and yes, paying the interest on the national debt."*

Rogers also notes that buyers of Treasury bonds have earned a positive return in only 17 of the past 55 months -- 38 months are underwater. He writes, *"I predict that it will be only a matter of time before the typical Japanese or German investor wises up and declares, 'I've owned these stinkers for the past several years, and compared with other investments I'm losing ground.'"* Foreign investors have other reasons to pull back. As their economies become stronger, the Japanese and Europeans will need to bring their funds back home to finance growth.

I've wondered how long foreigners would continue to collect dollars before they decide it's a losing game. Aside from the total of foreign holdings of dollars, there's another test of the picture. It's the value of the dollar compared with the hard currencies, and particularly the currencies of the three largest of the US's creditors. The three are Japan (they hold $255 billion of our debt), Britain ($142 billion) and Germany ($64 billion).

Last week Hans Tietmeyer, president of the Bundesbank announced, "I will only say that further dollar development is important and that a strong dollar is in the interest of all." **Russell comment:** You bet it's in the interest of all. Half the reserves of the world's central banks are in dollars.

Let me discuss another dollar area. There are two measurements of the dollar and people tend to confuse them. One measurement is the dollar's value against other currencies. On this count, the dollar, long-term, has not done well against the major "hard" currencies. For instance, against the stalwart Swiss franc the dollar has been in an extended multi-year decline. In 1986, only 10 years ago, the Swissie was worth 36 cents. Today the Swissie is worth 84 cents. That's, er, not a very good performance.

The second measurement is the purchasing power of the dollar. Don't get me started here. Well, just a few examples -- back in 1957 I could go to Macy's and buy a good white dress shirt for around $3.50. Now if I go to Macy's it will cost me around $40 to $65 to buy the same quality white shirt. Sadly, the purchasing power of the dollar over the long term goes only one way -- down.

Wait, I can't resist one more example. During World War II a lot of us bought the famous GI life insurance policy. It was for $10,000, which at the time seemed like all the retirement money we'd ever need. Most of the guys who bought that policy dropped it over the years. I still have my policy. But $10,000, which was big money in the 1940s, won't buy half a car today. That's what happened to the purchasing power of the dollar under the protection of the Fed and the US Treasury.

So the irony is that under the current world (fiat) currency system ALL paper money loses purchasing power, but some (like the dollar) lose purchasing power faster than others. The trick, as governments have discovered, is to allow the purchasing power of paper currencies to deteriorate slowly. As a workable formula, the dollar should always take a decade or longer before losing 50% of its purchasing power.

This concept, by the way, is probably one of the great reasons why the public has flocked wholesale into the stock market. To recount a bit of history, for many years people felt that their purchasing power or net wealth was being bolstered by rising home prices. But when the real estate boom caved in, the only other alternative was stocks. It still is stocks. And just as people thought that holding a home was the eternal ticket to keeping up with purchasing power, that same hope now centers on stocks.

But in the stock market, as in real estate, things change. They change when values become unsustainable. How do you value a home or any other real estate? When you can buy a house and then rent it out and (after all expenses) make a decent profit, at that point real estate becomes a true investment, a "value."

When I was in my teens in NYC I would go over dozens of "breakdowns" of houses with my father, who was an expert real estate man. In those days you could buy a brownstone on the preferred East Side, a brownstone half-rented, put down 25% in cash and get a return of 25% to 50% on your money (and remember, that was when the building was only half-rented). I'm not talking about a few individual cases -- these buildings were available by the multi-dozens. Nobody wanted them. That situation represented a depression extreme that has not been seen again. Those brownstones were great values.

In 1949 and again in 1974 you could buy a broad list of blue-chip stocks selling at 10 times earnings or less and yielding 6% to 7% and more. Nobody wanted them at the time -- 98% of investors preferred cash.

So question -- where do you go with money today? Answer -- to be honest, I don't see anything on the bargain table today unless it's a new business in biotech or something in high-tech. But that's like saying "I should have invested with Warren Buffett in 1958." Who knew? Who knew indeed!

One answer is to just build up your cash and wait for bargain-time to arrive again. Will it ever come again? Does night follow day?

NOTES & QUOTES: Is Wall Street having a good time with this market? Oh yeah. For instance, Bear Stearns' five top executives will split $81 million for the year ended in June (three will get $19 million or more each). Then there's Goldman Sachs which generated a profit of a mere $589 million for the quarter (the Goldman partners will do OK). Wonder how Merrill will do?

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China, formerly dark and somber, is changing. The *Washington Post* reports that a section of Beijing called Sanlitan "is sprouting a collection of new outdoor cafes, jazz bars and pubs. Along narrow, shaded streets foreigners mix with Chinese yuppies to eat mushroom-stuffed ravioli or salmon with caviar and dill. Said Zhang Shuxia, who started a bar called Studio 5 with her husband and other investors, 'This all began one to two years ago. Before then, Chinese people would only eat to fill their stomachs. But then people had this feeling that they could get together and socialize over meals and drinks'." **Russell comment:** Let's leave the Chinese alone. As they get rich (and it's happening) capitalism and free markets will rule. In the end, economics conquers all. Hong Kong looks better by the month.

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Entertainment: Hollywood has its problems, and its problems are basic -- too many movies plus booming expenses. And now the major networks are struggling. In the 1995-96 season the Big Four networks' collective share of the evening TV audience fell 6% to 61%, its lowest level (we're talking about ABC, NBC, CBS, FOX). The winners -- the cable channels: CNN, A&E, "E", Lifetime, Discovery. In an attempt to recoup, the networks are frantically throwing sitcoms on the air. The fear, of course, is that advertisers will leave the Big Four and go elsewhere, very likely to cable channels. Personally, I now spend more TV time on the cable stations than on the Big Four. As for MTV, in my opinion it's so dreadful, so mindless, that I really think it's paralyzing the brains of America's youth (my kids have switched to "E").

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Dole and the Republican campaign are doing so poorly that there is now fear in the GOP camp that control of the Congress could swing to the Democrats in the coming election. Many Republicans, in fact, are now separating themselves from Dole. California seems to be lost to the Republicans, and as stated earlier, the last time a Republican lost California and won the presidency was back in 1880 (and at that time California had less than 2% of the US population).

The picture is clear -- aside from Dole's unpopularity, the US public is fearful of real change. They don't trust politicians, and they are afraid (rightly so, through experience) that ANY change will represent a change for the worse. Clinton represents the status quo. Clinton has vetoed almost every bill (except welfare) that represents change. As far as voters are concerned, government was never so suspect, so unpopular. With Clinton (who is not running on any platform except his "family values" nonsense), Americans will vote for Clinton and the status quo.

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To my mind, the best column being written today comes from Maureen Dowd at the *NY Times*. In her Sept. 12 piece, Dowd says what I have always felt -- which is that we get the president we deserve. Writes Dowd, "When he was first in office, Mr. Clinton tried being a leader. Now he settles for being a mirror. The role suits him. He perfectly reflects the confessional, narcissistic, cynical, opportunistic, personality-driven times. He was always conciliatory, malleable, eager to please. But under the tutelage of the concupiscent Dick Morris, he learned to mirror the mood of the country, and to back issues that would appeal to most people in the most important groups . . . The scary thing about Bob Dole is that, just below the surface, we know we can't live up to his standards, that he's an old-fashioned curmudgeon who's never going to think we have enough starch. On the other hand, we know we can live up to Bill Clinton's standards." **Russell comment:** Dowd has it exactly right. Morality in the US has descended to maybe an all-time low. Thus, Clinton reflects how Americans act and think. Hypocrisy, platitudes, lies, no moral compass, adultery, cynicism -- it's the perfect picture of Americans and their current president.

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Mystery? Clinton has still not revealed his complete medical records, leaving people like me to wonder what he could possibly be hiding. Mmm, maybe he did inhale -- but then the question would be, "Just what did he inhale?"

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Trivia -- who was the last US president who was NOT a lawyer? Answer: Ronald Reagan.

* *

Sports: By the end of the decade at least 45 new sports stadiums and arenas will be built. The incredible total cost will be around $9 billion. What's happening? Major league team owners are telling cities -- "Give us a modern facility or bye-bye." The rising costs of building a stadium provide a good insight into the loss of the dollar's purchasing power over the years. Some examples: Green Bay's Lambeau Field (capacity 61,000) was built in 1957. It cost $1.2 million. Arizona's Sun Devil Stadium (capacity 73,000) was built in 1958 -- cost $1 million. San Diego's Jack Murphy Stadium (capacity 60,000) was built in 1967 -- cost $27 million. Philly's Veteran's Stadium (capacity 66,000) was built in 1971 -- cost $50 million. Atlanta's Georgia Dome (capacity 71,000) was built in 1992 -- cost $214 million. St. Louis' Trans World Dome (capacity 66,000) was built in 1995 -- cost $275 million.

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The O. J. trials and the arguments about Simpson's guilt will never end. A rash of books are coming out with most of the authors convinced of Simpson's guilt, and most also convinced the prosecutors bungled the case. Famed lawyer Vincent Bugliosi is absolutely convinced that Simpson did it; he says, "I've known a lot of murderers, but this guy is the most audacious murderer I've ever known. I'm convinced he feels he had a right to kill Nicole and that she did something to warrant the murder." Bugliosi calls prosecutors Darden and Clark's performance "beyond incompetent." **Russell opinion**: I agree. Furthermore, Simpson's arrogance and pure chutzpah borders on almost beyond belief.

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Speaking of chutzpah, Clinton (serial adulterer) and Dole (divorced) have been spouting off about family values. Dick Morris, who set Clinton on the family values shtick, had a long-term relationship with a prostitute. How any of these three could run on a family values ticket is the height of hypocrisy. No wonder Americans are becoming jaded. Kids (and grown-ups too) can see through lies. My own opinion is that this is the most disgusting presidential election I've ever listened to or witnessed.

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France: In today's world all currencies float against each other. Currently the French franc is under pressure as it reflects deteriorating conditions in France. Latest figures show a 0.4% decline in French GDP for the second quarter plus 12% unemployment. If you're heading for Paris, you might as well know that the franc is worth roughly 19.5 cents, but prices still remain high in France.

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Changes: My old friend, Bert Dohman writes in his latest report, "About 17 years ago I had dinner with a member of one of the wealthiest families in Asia. He made a statement that I will never forget. 'Economically, Europe is dying, having committed suicide by the implementation of socialism. The United States is on the way to permanent stagnation and will eventually die economically as well. But Asia, which has not adopted the freedom-robbing, vitality-choking socialistic policies of the West, will flourish." [*Wellington Letter*, (808)545-2243.] **Russell comment:** The rising expenses of the welfare state are now forcing Europe and the US to back away from the socialistic bandwagon. But the debts that have built up over the years will remain there to haunt them.

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Missiles: The future of air warfare, it seems, will increasingly be the missile rather than the fighter plane. At the huge Farnborough air show in Paris there was little new to see in the way of combat planes. Only France, Britain, the US and Russia have the capability of building really new fighters. However, an increasing amount of money and time will be going into missiles. One reason the US isn't moving completely into missiles is that the Pentagon would not want to deal a crippling psychological blow to the morale of the air corps in all three services.

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Super: Meanwhile, the future of air travel appears to be heading for the "super-jumbo" plane. The European Airbus consortium is moving ahead to build a 550 passenger monster, the world's largest aircraft, scheduled to appear in the year 2003. Boeing is also building an VLCT (Very Large Capacity Airliner). The Boeing monsters, the 747-500 and 747-600, will carry 450 to 550 passengers over distances up to 8,000 miles.

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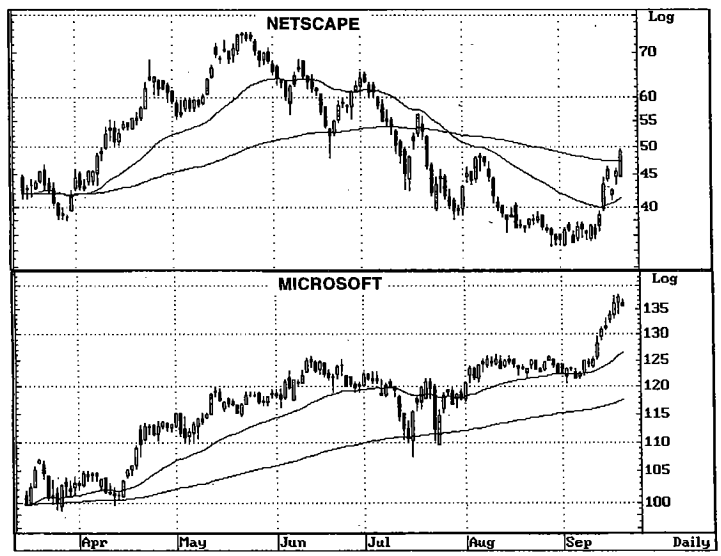
Time magazine (Sept. 16) makes the interesting case for "do or die" in the battle for the **Internet.** In describing the case of Netscape vs. Microsoft. *Time*, writes, "An epic battle is taking place between Microsoft and Netscape. Each company wants to be your guide to the Internet, the key to personal computing in the future. The victor could earn untold billions: the loser could die."

Russell comment: No question about it, Bill Gates, who recognized the importance of the Internet late in the game, has now moved 100% into the Internet mode. One big plus for Microsoft is that Gates has total control. As a result, Microsoft can turn on a dime and go full force into a new direction (can you imagine GM being caught by surprise in the same situation -- they'd have meetings and debates for two years before moving). As far as which company will come out the winner in the battle to control the Internet, I'll let the market decide. Here are the charts of both MSFT and NSCP. You decide which of the two is gaining.



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The banking picture in the US is changing drastically. One big change -- six of the top 10 banks in the nation are now not "money center" banks. The regional banks have become the giants. Furthermore, mergers are continuing to shrink the number of banks in the US. Branch offices are closing nationwide while regional banks are becoming more national in scope. The most recent shocker was NationsBank's $8.7 billion takeover of Boatmen's Bankshares Inc. Why the mergers? One reason -- economy. Meanwhile, thousands of bank employees are being given their walking papers as the move towards mergers and takeovers accelerates.

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The public's interest in so-called **alternative medicine** continues to accelerate, this despite the protestations of the Food and Drug Administration and despite the skepticism of organized medicine. But the alternative medicine industry, now running into the billions of dollars, is too big to stop. And finally, many physicians themselves are being forced to at least investigate alternative medicine (one major NYC hospital has set up a separate division to investigate alternative medicine treatments). Last week, when I visited our local chain drug store (Long's Drugs), I was amazed to see that this super-drug store chain is now carrying lines of exotic

Chinese herbs, a full line of vitamins, plus all sorts of alternative items such as Primrose oil, lecithin, zinc, ginseng, etc.

Incidentally, for subscribers who have any kind of heart trouble, there's a booklet being published that provides a full quotient of questions and answers about chelation. It's called "Questions From the Heart." I strongly recommend this book, which can be purchased for $10.95 from Hampton Roads Publishing, 134 Burgess Lane, Charlottesville, VA 22902 or call (804)296-2772. I have many physician subscribers who may or may not be familiar with EDTA chelation or have had no personal experience with this therapy (and, of course, most physicians are skeptical). May I recommend that you too read this booklet.

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Veteran subscribers know that I am not a fan of the **Federal Reserve.** The *WSJ* (Sept. 12) in a front-page article writes that the "Fed's Huge Empire, Set Up Years Ago, Is Costly and Inefficient. It Has Far Too Many Banks, Often in the Wrong Places, Losses in Check-Clearing." The article talks about the huge new $100 million Minneapolis Fed building along with its "10-story clock tower overlooking terraces and gardens. It will offer fortress-like security and robot-attended automatic vaults, plus an indoor pistol range, a fitness center and subsidized dining. The Fed's construction boom also includes the lavish new $168 million Dallas Fed and a planned $178 million Atlanta Fed." **Russell comment:** The Fed is not federal nor is it a reserve. It's an independent agency, and although it controls the nation's money supply, it is never audited. Get this: the Fed has 25,000 employees, a fleet of 47 Lear jets and small cargo planes, fleets of cars, including personal cars for 59 Fed bank managers. Over the past three years, the number of Fed employees making more than $125,000 a year has more than doubled to 72, up from 35 in 1993. And, oh yes, the chief of maintenance at the Fed makes $163,000, more than the US Secretary of State.

How does the Fed finance this magnificent set-up? The Fed funds itself from the interest on its huge throve of government securities. Last year the Fed kept a fat $2 billion of this interest for itself, while returning $20 billion to the Treasury. And that, dear readers, is where our money goes.

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Thomas Stanley, author and consulting specialist on wealth issues made a study of 1,000 millionaires. His surprising result -- more than half of the millionaires over 75 years of age are still working. And many went into "high gear" at middle age. For instance, Sam Walton opened his first Wal-Mart at age 44. Ted Turner launched CNN at age 42. Bernard Marcus co-founded Home Depot when he was 48. Ray Kroc started McDonalds when he was in his '50s. **Russell comment:** When you retire, you better retire TO something. I don't care if it's golf, biking, traveling, or collecting something. But just to retire and vegetate -- big mistake. You can die of boredom or a feeling of uselessness. It's the "use it or lose it" syndrome.

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Which is a better business, movies or music? Music by a long shot. Fred DeMann, Madonna's manager, runs a joint venture (Maverick Records) with Time Warner. One of Maverick's clients is Alanis Morissette, whose "Jagged Little Pill" has sold an amazing 20 million records. Says DeMann, "A film costs $25 million to make and $25 million to market. If it stiffs, it stiffs big. With a record, for $1 million, including marketing costs, you know what you have in a hurry."

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Money magazine (a Time Warner publication) is the magazine that is probably most widely read by amateur investors. *Money's* cover stories are often "irresistible," the latest being "Retire With All the Money You'll Ever Need." This was such a fascinating thought that I decided to actually read the article. Here's *Money's* formula: (1) Don't buy designer clothing, buy modest clothes. Sounds right. (2) Don't give big bucks to charities, donate your hours instead. Sounds OK. (3) Move to a no-income tax state like Florida. That's easy. (4) "Work in retirement." What's this -- retire and then work some more? That doesn't sound like retirement to me. So that's **Money** magazine's formula for retiring "with all the money you'll ever need." Brilliant. Here's **Russell's foolproof way** to retire without ever worrying. First, as long as you're working, make a LOT more money than you'll ever need. After you arrive at that advantageous level, retire. Or here's a better one -- marry a frugal millionaire.

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Drugs: Two of my kids are still teen-agers, and I'm therefore more than a little interested in the drug question. Last week I read a most interesting letter in the *NY Times Book Section.* I thought the letter was worth reprinting, since I subscribe to the old theory that differing or even questioning opinions can have the effect of broadening one's mind. And yes, I believe that marijuana could become serious competition to alcohol.

Drug Wars

To the Editor:

As a New York City police officer and attorney who has prosecuted many cops for using illegal drugs, I am always glad to see that the drug war is still creating lively debate (see Christopher S. Wren's review of "Global Habit," "Smoke and Mirrors" and "Drug War Politics," Aug. 18).

However, I believe there are some important factors that are generally neglected by politicians, police officials and writers on this subject:

1. There is little open-minded *discussion* (not debate) on the subject of legalization, as Mayor Kurt Schmoke of Baltimore, George Shultz, William F. Buckley Jr. and others have requested. Opponents of legalization virtually explode with anger at the supporters of legalization, preventing any legitimate dialogue. Most public figures are afraid to say anything positive about legalization.

2. There is rarely any acknowledgment of the power of billion-dollar drug empires to corrupt and fool members of Congress, judges, police officers and whoever else stands between drug dealers and drug profits. The major drug dealers have their own "lobbyists," who are rarely identified as such. If highly respected members of Congress could be bought by phony sheiks in the Abscam scandal for as little as a few thousand dollars, big drug money can (and does) do much more corrupting.

3. The influence of the liquor and tobacco industries in preventing productive dialogue on legalization is generally ignored by the press. However, it is obvious that legalization of marijuana could have a serious impact on the liquor industry.

I don't advocate legalization without limits, but I think we desperately need open discussion of various drug strategies.

MICHAEL J. GORMAN
Whitestone, Queens

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People ask me, "Russell, what are your biggest long-term worries?" My answer: (1) World over-population. For instance, Cornell scientist David Pimentel predicts a doubling of the US population by the year 2064. Actually, I think we're getting kind of crowded now. (2) The loss of the world's forests, which are disappearing at a frightening and dangerous rate. One scientist predicts the loss of 180 million acres of arable land by the middle of the next century. (3) My final worry -- four more years of the Clintons.

* *

Americans are head-over-heels in debt. During the first quarter the percentage of credit card accounts late on payments jumped to a near-record 3.53%. Home equity loan delinquencies also rose to 1.44% of all loans, up from 1.20% in second quarter 1995. Consumers are also filing for bankruptcy at a record rate of 1% of all families. The worry is that all this is happening in good times. What happens if the bloom comes off the rose? It's all OK, say some economists, debt's as American as apple pie.

GOLD: The Western Australian outback has become a major gold producer. In the past 20 years Australia has increased its gold output by 17-fold. By the turn of the century the Aussie will overtake the US as the world's second largest gold producer. South Africa's output is decreasing, and miner's are pushing for higher wages.

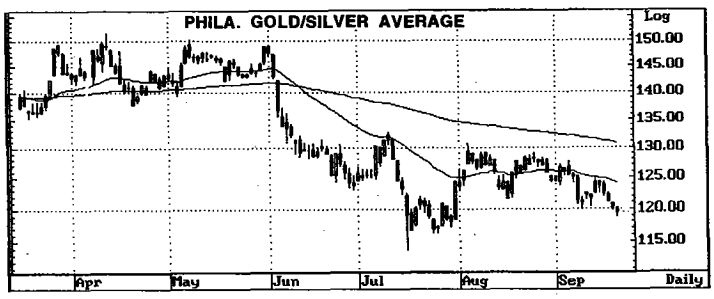
In the meantime, the International Monetary Fund is just drooling to sell a few billion dollars worth of gold in order to provide as much as $6 billion in debt relief to African nations. Chancellor Kohl of Germany objects to all this, but if it comes to a G-7 vote the gold will be sold.

On another front the Swiss are under increasing pressure to return a massive store of stolen Nazi booty, meaning gold, to Holocaust victims. Swiss banks are finally being forced to open their books. The stolen gold is estimated to be worth around $4 billion at current prices. Britain claims that Swiss banks may hold 90% of the war hoard and none other than former Fed Chairman Paul Volcker has been chosen to meet with international auditing firms in Zurich in order to determine how much money due to Holocaust victims is still hidden in Swiss banks. Up to recently, the Swiss denied that their banks had knowingly accepted any looted gold. The whole thing could turn out to be a nightmare for both the Swiss government and the banking community. Said General Israel Singer, Secretary of the World Jewish Congress, "The latest evidence is mind-boggling . . . Until a few months ago, all we were going on was hearsay about trains arriving in Switzerland with looted gold, and now we have the documents to prove it." **Russell comment:** When it comes to gold, men kill for it, and men die for it, and the Swiss (among others) lie for it.

Aside from all the above, there is the price of gold. And I've opined for decades that the price of gold is not set by governments and it's not set by supply and demand. No, the price of gold is set by market sentiment. When people want gold, they don't give a damn whether S. African production is down or the US production is up. They just want gold, or as the old saying goes (remember the 1970s?), "There's no fever like gold fever."

Will we ever see gold fever again? Bet on it, but don't bet on the timing. Right now, the gold action is so poor that I don't even want to show my Gold-PTI. In a phrase, it's at new lows.

The Philly Gold/Silver Average finally broke below the 120 level, and silver last week gapped down well below the critical five dollar level. Those who protect themselves with precious tangibles will have to console themselves with jewelry -- the price of large (over 10-carat) diamonds has boomed. Wealthy women the world over, it seems, love BIG diamonds.



LATE NOTES, COMMENT: In this business, they never make it easy for you. For instance, in the earlier part of this Letter I noted that during September the D-J Transports have "not even" bettered their August high. But as this is written Transports have rallied well above their August high of 2079.60. This is a decided plus in that Transports have now confirmed the Dow in a *secondary* sense and are moving in the right (bullish) direction.

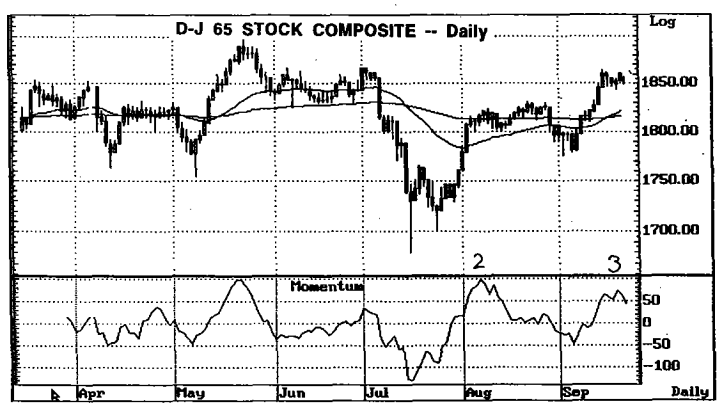
The little-watched **D-J Composite Average** often provides hints as to where the market is and what's coming up. The Composite is made up of 65 stocks, the 30 Dow Industrials, the 20 Transports and the 15 Utilities. Looking at the chart, you can make a case for the market being in a ragged trading range since last March. In May the Composite broke temporarily out of the range on the upside. Then in July the Composite broke temporarily out of the range on the downside. As this is written, the Composite is at the upper part of the trading range, but not at a new high.

Looking at the lower part of the chart you can see that we are at what appears to be a third momentum peak. This suggests that the market is "overbought," which I feel is the correct picture.

How the market works off this overbought situation will be indicative. In a powerful market the overbought will be worked off *through time,* with little loss in the Index. In weak markets, an overbought situation will be resolved via a downside correction.

Because it is so critical in understanding what's going on, I want to reiterate the concept of MASS participation in this market. No market in history has even experienced anything like what we're seeing today. Regardless of whether the news is good or bad, you get the feeling (and it's more than a feeling, it's an actuality) of billions of dollars pouring into this market via individuals, mutual funds, pension plans, 401(k)s, foreign investors, etc. I am asked repeatedly how I think this market will end? My answer: It will end the way all bull markets and all bear markets end -- *in exhaustion.* From the look of it, exhaustion is not here yet.

Conclusion: Dow Theory still bullish, PTI bullish and just off its high, but market becoming increasingly overbought.



Christmas isn't too far off, and as I read the many jewelry ads now appearing in the newspapers and magazines I can't believe the inflated prices (the mark-ups are HUGE). There is no field in which so many people spend so much money without having any knowledge of what they are buying.

As a favor to subscribers who are thinking of buying better jewelry, let me suggest the following. My good friend D.K. Maltin here in La Jolla runs a fine jewelry business. D.K. sells everything from $800 bracelets to important diamonds. The difference is that D.K. is honest, reliable, and works at close margins. I trust D.K. implicitly, and have bought many items from him over the years. If you want a jewelry item or would like some ideas on jewelry or if you want something made for you (he can make almost anything you want), call D.K. at (619)454-0472 or FAX him at (619)454-1569. As usual, I make not one cent on any offer or suggestion that appears in these Letters. I'm writing this because I'm tired of seeing people (including my subscribers) overpay for inferior jewelry and gems when there are honest jewelers in this world.

This Letter is being mailed on Tuesday, so obviously I don't know what the Fed will do tomorrow. But frankly, I'm more interested in how the *patterns on the page 1 chart play out* than I am in whether the Fed boosts rates . . . It's well to keep in mind that the yield on the long bond (7.1%) is now more than three times the yield of the Dow (2.1%).

Final thought -- What would the odds have been that Green Bay, Dallas and the 49ers would all lose on the same weekend? **The Lesson:** (1) The only certainties in this world are death, taxes, compound interest and political corruption. (2) Never bet more the five bucks on the outcome of a football game.